

CITY OF READLYN
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
& SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

June 30, 2006

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City of Readlyn

Officials

<u>Name</u>	<u>Title</u> (Before January 2006)	<u>Term Expires</u>
Herbert Clemen	Mayor	12-31-07
Jeff Brunscheon	Mayor Pro tem	12-31-06
Tom Cozart	Council Member	12-31-06
Steve Boevers	Council Member	12-31-07
Dan Wedemeier	Council Member	12-31-07
Barry Fortsch	Council Member	12-31-07
(After January 2006)		
Herbert Clemen	Mayor	12-31-07
Jeff Brunscheon	Mayor Pro tem	12-31-09
Tom Cozart	Council Member	12-31-09
Steve Boevers	Council Member	12-31-07
Dan Wedemeier	Council Member	12-31-07
Barry Fortsch	Council Member	12-31-07
Lois Buhr	City Clerk	12-31-08
Janice Heineman	City Treasurer	12-31-08
Gaylen Hassman	Attorney	12-31-08

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Readlyn, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Readlyn's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

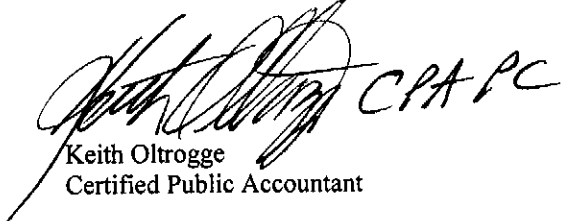
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2005.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Readlyn as of and for the year ended June 30, 2006 on the basis of accounting described in Note 1. Also, in my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Readlyn as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated December 20, 2006 on my consideration of the City of Readlyn's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 19 through 20 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Readlyn's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Keith Oltrogge
Certified Public Accountant

December 20, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Readlyn provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2006 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 8% or \$45,153 from fiscal 2005 to fiscal 2006. Miscellaneous receipts increased \$43,286.
- Disbursements of the City's governmental activities increased 50%, or \$548,818, in fiscal 2006 from fiscal 2005. Capital project expenditures increased \$428,484.
- The City's total cash basis net assets decreased 32.2%, or \$469,585 from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities decreased 51.5% or \$488,642 and the assets of the business type activities increased by 3.6% or \$19,057.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sewer improvement revenue note sinking, the electric utility, the meter deposits and the solid waste collection. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains five Enterprise Funds to provide separate information for the water, sewer, sewer improvement revenue note sinking, electric utility and meter deposit funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$948,837 to \$460,195. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		Year Ended June 30, 2006
Receipts and transfers:		
Program receipts:		
Charges for service	\$	3,195
Operating grants, contributions and restricted interest		91,866
Capital grants, contributions and restricted interest		-
General receipts:		
Property tax		302,697
Local option sales tax		54,824
Unrestricted investment earnings		12,520
Miscellaneous		105,760
Transfers		37,273
Total receipts	\$	608,135
Disbursements:		
Public safety	\$	71,936
Public works		133,261
Health and social services		684
Culture and recreation		103,573
Community and economic development		-
General government		33,810
Debt service		191,234
Capital projects		562,279
Total disbursements	\$	1,096,777
Decrease in cash basis net assets	\$	-488,642
Cash basis net assets beginning of year		948,837
Cash basis net assets end of year	\$	460,195

Changes in Cash Basis Net Assets of Business Type Activities

	Year Ended June 30, 2006
Receipts:	
Program receipts:	
Charges for service:	
Solid waste	\$ 33,933
Water	56,716
Sewer	36,129
Electric utility	383,499
Sewer improvement revenue note sinking	54,939
Meter deposits	-
General receipts:	
Unrestricted interest on investments	15,209
Miscellaneous	650
Total receipts	<u>\$ 581,075</u>
Disbursements:	
Solid waste	\$ 31,127
Water	48,420
Sewer	44,319
Electric utility	362,537
Sewer improvement revenue note sinking	38,042
Meter deposits	300
Transfers	37,273
Total disbursements	<u>\$ 562,018</u>
Increase in cash balance	\$ 19,057
Cash basis net assets beginning of year	<u>511,766</u>
Cash basis net assets end of year	<u>\$ 530,823</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Readlyn completed the year, its governmental funds reported a combined fund balance of \$991,018, a decrease of \$469,585 less than last year's total of \$1,460,603.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment resulted in an increase in disbursements of \$153,909.

DEBT ADMINISTRATION

At June 30, 2006, the City had \$1,355,000 in capital loan notes and other long-term debt, compared to \$1,515,000 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2006	2005
General obligation capital loan notes	\$ 355,000	\$ 415,000
Urban renewal tax increment:		
Financing revenue bonds	740,000	820,000
Revenue notes	260,000	280,000
Total	\$ 1,355,000	\$ 1,515,000

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lois Buhr, City Clerk, 128 Main Street, Readlyn IA 50668.

Basic Financial Statements

City of Readlyn

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2006

			Program Receipts	
			Operating Grants, Contributions, & Restricted Interest	Capital Grants, Contributions & Restricted Interest
	Disbursements	Charges for Service		
Functions/Programs:				
Governmental activities:				
Public safety	\$ 71,936	\$ 680	\$ 9,076	\$ -
Public works	133,261	-	65,808	-
Health and social services	684	-	-	-
Culture and recreation	103,573	2,515	16,982	-
Community and economic development	-	-	-	-
General government	33,810	-	-	-
Debt service	191,234	-	-	-
Capital projects	562,279	-	-	-
Total governmental activities	\$ 1,096,777	\$ 3,195	\$ 91,866	\$ -
Business type activities:				
Solid waste	\$ 31,127	\$ 33,933	\$ -	\$ -
Water	48,420	56,716	-	-
Sewer	44,319	36,129	-	-
Electric utility	362,537	383,499	-	-
Sewer improvement revenue note sinking	38,042	54,939	-	-
Meter deposits	300	-	-	-
Total business type activities	\$ 524,745	\$ 565,216	\$ -	\$ -
Total	\$ 1,621,522	\$ 568,411	\$ 91,866	\$ -
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted: Debt service				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

Governmental Activities		Business Type Activities		Total
\$	-62,180	\$	-	\$ -62,180
	-67,453		-	-67,453
	-684		-	-684
	-84,076		-	-84,076
	-		-	-
	-33,810		-	-33,810
	-191,234		-	-191,234
	-562,279		-	-562,279
\$	-1,001,716	\$	-	\$ -1,001,716
\$	-	\$	2,806	\$ 2,806
	-		8,296	8,296
	-		-8,190	-8,190
	-		20,962	20,962
	-		16,897	16,897
	-		-300	-300
\$	-	\$	40,471	\$ 40,471
\$	-1,001,716	\$	40,471	\$ -961,245
\$	145,614	\$	-	\$ 145,614
	115,112		-	115,112
	41,971		-	41,971
	54,824		-	54,824
	12,520	15,209		27,729
	105,760	650		106,410
	37,273	-37,273		-
\$	513,074	\$	-21,414	\$ 491,660
\$	-488,642	\$	19,057	\$ -469,585
	948,837		511,766	1,460,603
\$	460,195	\$	530,823	\$ 991,018
\$	8,043	\$	-	\$ 8,043
	452,152		530,823	982,975
\$	460,195	\$	530,823	\$ 991,018

City of Readlyn

**Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds**

As of and for the year ended June 30, 2006

	General	Road Use Tax	Special Local Option Sales Tax
Receipts:			
Property tax	\$ 129,672	\$ -	\$ -
Tax increment financing collections	-	-	-
Other city tax	28,444	-	27,412
Licenses and permits	540	-	-
Use of money and property	4,725	-	2,581
Intergovernmental	26,058	65,808	-
Charges for service	2,455	-	-
Miscellaneous	24,325	-	-
Total receipts	<u>\$ 216,219</u>	<u>\$ 65,808</u>	<u>\$ 29,993</u>
Disbursements:			
Operating:			
Public safety	\$ 71,936	\$ -	\$ -
Public works	51,484	65,084	16,693
Health and social services	684	-	-
Culture and recreation	96,378	-	7,195
Community and economic development	-	-	-
General government	33,810	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>\$ 254,292</u>	<u>\$ 65,084</u>	<u>\$ 23,888</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ -38,073</u>	<u>\$ 724</u>	<u>\$ 6,105</u>
Other financing sources (uses):			
Operating transfers in	\$ 40,437	\$ -	\$ -
Operating transfers out	-3,000	-	-
Total other financing sources (uses)	<u>\$ 37,437</u>	<u>\$ -</u>	<u>\$ -</u>
Net change in cash balances	<u>\$ -636</u>	<u>\$ 724</u>	<u>\$ 6,105</u>
Cash balances beginning of year	<u>110,876</u>	<u>89,227</u>	<u>80,930</u>
Cash balances end of year	<u><u>\$ 110,240</u></u>	<u><u>\$ 89,951</u></u>	<u><u>\$ 87,035</u></u>
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ -	\$ -	\$ -
Unreserved:			
General fund	110,240	-	-
Special revenue fund	-	89,951	87,035
Capital projects fund	-	-	-
Total cash basis fund balances	<u><u>\$ 110,240</u></u>	<u><u>\$ 89,951</u></u>	<u><u>\$ 87,035</u></u>

See notes to financial statements.

Revenue						
Urban Renewal Tax Increment Financing (TIF) Revenue		Employee Benefits	Debt Service	Capital Projects	Total	
\$	-	\$ 14,790	\$ 41,715	\$ -	\$	186,177
	115,112	-	-	-		115,112
	-	120	256	-		56,232
	-	-	-	-		540
	-	-	44	5,370		12,720
	-	-	-	-		91,866
	-	-	-	-		2,455
	-	-	-	81,435		105,760
\$	115,112	\$ 14,910	\$ 42,015	\$ 86,805	\$	570,862
\$	-	\$ -	\$ -	\$ -	\$	71,936
	-	-	-	-		133,261
	-	-	-	-		684
	-	-	-	-		103,573
	-	-	-	-		-
	-	-	-	-		33,810
	-	-	191,234	-		191,234
	76,596	-	-	485,683		562,279
\$	76,596	\$ -	\$ 191,234	\$ 485,683	\$	1,096,777
\$	38,516	\$ 14,910	\$ -149,219	\$ -398,878	\$	-525,915
\$	-	\$ -	\$ 149,637	\$ 3,000	\$	193,074
	-112,364	-14,910	-	-25,527		-155,801
\$	-112,364	\$ -14,910	\$ 149,637	\$ -22,527	\$	37,273
\$	-73,848	\$ -	\$ 418	\$ -421,405	\$	-488,642
	64,168	-	7,625	596,011		948,837
\$	-9,680	\$ -	\$ 8,043	\$ 174,606	\$	460,195
\$	-	\$ -	\$ 8,043	\$ -	\$	8,043
	-	-	-	-		110,240
	-9,680	-	-	-		167,306
	-	-	-	174,606		174,606
\$	-9,680	\$ -	\$ 8,043	\$ 174,606	\$	460,195

City of Readlyn

**Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets –
Governmental Funds
As of and for the year ended June 30, 2006**

Total governmental funds cash balances (page 10)	\$ 460,195
<i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:</i>	
None	<u>-</u>
Cash basis net assets of governmental activities (page 9)	<u>\$ 460,195</u>
Net change in cash balances (page 10)	\$ -488,642
<i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:</i>	
None	<u>-</u>
Change in cash balance of governmental activities (page 9)	<u>\$ -488,642</u>

City of Readlyn

**Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds**

As of and for the year ended June 30, 2006

	Enterprise Funds			
	Solid Waste	Water	Sewer	Electric Utility
Operating receipts:				
Charges for service	\$ 33,933	\$ 56,716	\$ 36,129	\$ 383,499
Operating disbursements:				
Business type activities	\$ 31,127	\$ 48,420	\$ 44,319	\$ 362,537
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ 2,806	\$ 8,296	\$ -8,190	\$ 20,962
Non-operating receipts (disbursements):				
Interest on investments	\$ -	\$ -	\$ 24	\$ 12,118
Miscellaneous	-	-	-	-
Debt service	-	-	-	-
Transfers, net	-	-	-	-
Total non-operating receipts (disbursements)	\$ -	\$ -	\$ 24	\$ 12,118
Net change in cash balances	\$ 2,806	\$ 8,296	\$ -8,166	\$ 33,080
Cash balances beginning of year	12,891	-11,136	1,361	429,518
Cash balances end of year	\$ 15,697	\$ -2,840	\$ -6,805	\$ 462,598
Cash Basis Fund Balances				
Unreserved	\$ 15,697	\$ -2,840	\$ -6,805	\$ 462,598

See notes to financial statements.

Enterprise Funds			
Sewer Improvement	Meter		Total
Revenue Note Sinking	Deposits		
\$ 54,939	\$ -	\$	565,216
\$ 5,677	\$ 300	\$	492,380
\$ 49,262	\$ -300	\$	72,836
\$ 3,023	\$ 44	\$	15,209
-	650		650
-32,365	-		-32,365
-37,273	-		-37,273
\$ -66,615	\$ 694	\$	-53,779
\$ -17,353	\$ 394	\$	19,057
67,966	11,166		511,766
\$ 50,613	\$ 11,560	\$	530,823
\$ 50,613	\$ 11,560	\$	530,823

City of Readlyn

**Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets –
Proprietary Funds
As of and for the year ended June 30, 2006**

Total enterprise funds cash balances (page 12)	\$ 530,823
<i>Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:</i>	
None	<u>-</u>
Cash basis net assets of business type activities (page 9)	<u>\$ 530,823</u>
Net change in cash balances (page 12)	\$ 19,057
<i>Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:</i>	
None	<u>-</u>
Change in cash balance of business type activities (page 9)	<u>\$ 19,057</u>

City of Readlyn

Notes to Financial Statements

June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Readlyn is a political subdivision of the State of Iowa located in Bremer County. It was first incorporated in 1905 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general administrative services. The City also provides water, sewer, electric and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Readlyn has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Bremer County Assessor's Conference Board, City Assessor's Conference Board, Bremer County Emergency Management Commission, Bremer County Landfill Commission and Bremer County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for the receipt of local option sales tax.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Employee Benefits Fund account for moneys received for employee benefits.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund accounts for moneys received for capital projects and the related disbursements.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Electric Utility Fund accounts for the operation and maintenance of the City's electric utility system.

The Meter Deposits Fund accounts for customer's deposits and refunds.

The Solid Waste Fund accounts for the operation and maintenance of the City's garbage service.

The Sewer Improvement Revenue Note Sinking Fund accounts for the receipt of the sewer improvement loan and payment of the debt.

C. Measurement Focus and Basis of Accounting

The City of Readlyn maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the culture and recreation function.

NOTE 2 – CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$512,722 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest Rate Risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit Risk – The City's investment in the Iowa Public Agency Investment Trust is unrated.

NOTE 3 – BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation capital loan notes, urban renewal tax increment financing revenue bonds, and revenue notes are as follows:

Year Ending June 30,	General Obligation Capital Loan Notes		Urban Renewal Tax Increment Financing (TIF) Revenue Bonds		Revenue Note	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$25,000	\$15,248	\$110,000	\$29,190	\$20,000	\$11,255
2008	25,000	14,247	115,000	24,913	25,000	10,515
2009	25,000	13,223	120,000	20,257	25,000	9,553
2010	25,000	12,185	125,000	15,220	25,000	8,552
2011	85,000	11,135	135,000	9,855	30,000	7,515
2012	85,000	7,522	135,000	4,995	30,000	6,240
2013	85,000	3,825	-	-	35,000	4,935
2014	-	-	-	-	35,000	3,360
2015	-	-	-	-	35,000	1,715
	<u>\$355,000</u>	<u>\$77,385</u>	<u>\$740,000</u>	<u>\$104,430</u>	<u>\$260,000</u>	<u>\$63,640</u>

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

During the year ended June 30, 2006, the City paid \$160,000 in principal payments, and \$62,599 in interest and fees payments.

NOTE 4 – PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing, multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2006 was \$9,963, equal to the required contribution for the year.

NOTE 5 – COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 6,254
Sick leave	15,776
Total	\$ 22,030

This liability has been computed based on rates of pay in effect at June 30, 2006.

NOTE 6 – INTER-FUND TRANSFERS

The detail of inter-fund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
General	Capital Projects	\$ 25,527
Capital Projects	General	3,000
Debt Service	Special Revenue – Urban Renewal	
	Tax Increment Financing (TIF)	112,364
Debt Service	Enterprise Fund - Sewer	37,273
General	Special Revenue – Employee Benefits	14,910
Total		\$ 193,074

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

NOTE 7 – RISK MANAGEMENT

The City of Readlyn is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 8 – DEFECIT FUND BALANCES

The Enterprise Funds – Water and Sewer had deficit balances of \$2,840 and \$6,805, respectively, at June 30, 2006. The Special Revenue Fund – Urban Renewal Tax Increment Financing (TIF) revenue also had a deficit balance of \$9,680 at June 30, 2006.

NOTE 9 – 28E AGREEMENT

The City has a 28E Agreement for garbage pick-up services with the City of Tripoli, forming the Tripoli-Readlyn Sanitation Agency. The City paid \$29,370 for services in 2006.

REQUIRED SUPPLEMENTARY INFORMATION

City of Readlyn
Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances –
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 186,177	\$ -
Tax increment financing collections	115,112	-
Other city tax	56,228	-
Licenses and permits	540	-
Use of money and property	12,724	15,209
Intergovernmental	91,866	-
Charges for service	2,455	565,216
Special assessments	-	-
Miscellaneous	105,760	650
Total receipts	<u>\$ 570,862</u>	<u>\$ 581,075</u>
Disbursements:		
Public safety	\$ 71,936	\$ -
Public works	133,261	-
Health and social services	684	-
Culture and recreation	103,573	-
Community and economic development	-	-
General government	33,810	-
Debt service	191,234	-
Capital projects	562,279	-
Business type activities	-	524,745
Total disbursements	<u>\$ 1,096,777</u>	<u>\$ 524,745</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ -525,915</u>	<u>\$ 56,330</u>
Other financing sources, net	<u>37,273</u>	<u>-37,273</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	<u>\$ -488,642</u>	<u>\$ 19,057</u>
Balances beginning of year	948,837	511,766
Balances end of year	<u>\$ 460,195</u>	<u>\$ 530,823</u>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 186,177	\$ 184,595	\$ 184,595	\$ 1,582
115,112	115,670	115,670	-558
56,228	53,525	53,525	2,703
540	150	150	390
27,933	26,000	26,000	1,933
91,866	90,593	90,593	1,273
567,671	549,600	549,600	18,071
-	-	-	-
106,410	25,000	25,000	81,410
\$ 1,151,937	\$ 1,045,133	\$ 1,045,133	\$ 106,804
\$ 71,936	\$ 89,260	\$ 94,760	\$ 22,824
133,261	103,770	148,464	15,203
684	684	684	-
103,573	70,175	78,370	-25,203
-	-	-	-
33,810	39,500	39,500	5,690
191,234	131,716	191,236	2
562,279	600,000	600,000	37,721
524,745	529,856	565,856	41,111
\$ 1,621,522	\$ 1,564,961	\$ 1,718,870	\$ 97,348
\$ -469,585	\$ -519,828	\$ -673,737	\$ 204,152
-	600,000	600,000	-600,000
\$ -469,585	\$ 80,172	\$ -73,737	\$ -395,848
1,460,603	957,137	957,137	503,466
\$ 991,018	\$ 1,037,309	\$ 883,400	\$ 107,618

City of Readlyn

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$153,909. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the culture and recreation function.

Other Supplementary Information

City of Readlyn
Schedule of Indebtedness
Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Capital Loan Notes:			
Sewer Improvement	November 4, 1996	4.6-5.35%	\$120,000
Sewer Improvement	April 1, 2002	3.4-4.5%	\$400,000
Urban Renewal Tax Increment Financing (TIF):			
Revenue Bond	October 1, 1999	4.7-5.3%	\$385,000
Revenue Bond	June 15, 2005	2.85-3.7%	\$575,000
Revenue Notes:			
Sewer	April 1, 2002	3.0-4.9%	\$325,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$35,000	\$-	\$35,000	\$-	\$1,872	\$-
380,000	-	25,000	355,000	16,198	-
\$415,000	\$-	\$60,000	\$355,000	\$18,070	\$-
\$245,000	\$-	\$40,000	\$205,000	\$12,645	\$-
575,000	-	40,000	535,000	18,919	-
\$820,000	\$-	\$80,000	\$740,000	\$31,564	\$-
\$280,000	\$-	\$20,000	\$260,000	\$11,965	\$-

City of Readlyn

Note Maturities

June 30, 2006

Year Ending June 30,	General Obligation Capital Loan Note	
	Capital Loan	
	Sewer Improvement	
	Issued April 2002	
	Interest Rate	Amount
2007	4.00%	\$25,000
2008	4.10%	25,000
2009	4.15%	25,000
2010	4.20%	25,000
2011	4.25%	85,000
2012	4.35%	85,000
2013	4.50%	85,000
		<u>\$355,000</u>

Year Ending June 30,	Urban Renewal Tax Increment Financing Revenue Bonds (TIF)			
	Revenue Bond		Revenue Bond	
	Issued October 1, 1999		Issued June 15, 2005	
	Interest Rate	Amount	Interest Rate	Amount
2007	5.10%	\$45,000	3.05%	\$65,000
2008	5.15%	50,000	3.20%	65,000
2009	5.20%	55,000	3.35%	65,000
2010	5.30%	55,000	3.50%	70,000
2011		-	3.60%	135,000
2012		-	3.70%	135,000
		<u>\$205,000</u>		<u>\$535,000</u>

Year Ending June 30,	Revenue Note	
	Sewer	
	Issued April 1, 2002	
	Interest Rate	Amount
2007	3.70%	\$20,000
2008	3.85%	25,000
2009	4.00%	25,000
2010	4.15%	25,000
2011	4.25%	30,000
2012	4.35%	30,000
2013	4.50%	35,000
2014	4.70%	35,000
2015	4.90%	35,000
		<u>\$260,000</u>

See accompanying independent auditor's report.

City of Readlyn

Schedule of Receipts By Source and Disbursements By Function –
All Governmental Funds

For the Last Two Years

	2006	2005 (Unaudited)
Receipts:		
Property tax	\$ 186,177	\$ 193,018
Tax increment financing collection	115,112	94,915
Other city tax	56,228	69,494
Licenses and permits	540	150
Use of money and property	12,724	6,106
Intergovernmental	91,866	99,163
Charges for service	2,455	389
Special assessments	-	-
Miscellaneous	105,760	62,474
Total	<u>\$ 570,862</u>	<u>\$ 525,709</u>
Disbursements:		
Operating:		
Public safety	\$ 71,936	\$ 91,563
Public works	133,261	87,434
Health and social services	684	684
Culture and recreation	103,573	63,654
Community and economic development	-	-
General government	33,810	32,781
Debt service	191,234	138,048
Capital projects	562,279	133,795
Total	<u>\$ 1,096,777</u>	<u>\$ 547,959</u>

**Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Readlyn, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated December 20, 2006. My report expressed an unqualified opinion on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Readlyn's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Readlyn's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe items I-A-06, I-B-06 and I-C-06 are material weaknesses.

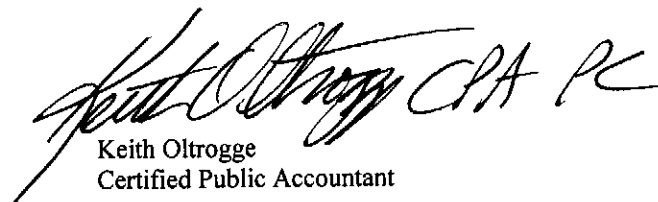
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Readlyn's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Readlyn and other parties to whom the City of Readlyn may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Readlyn during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



Keith Oltrogge
Certified Public Accountant

December 20, 2006

City of Readlyn
Schedule of Findings
Year ended June 30, 2006

Part I – Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – I realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- I-B-06 Library Disbursement Approval – The Library Board approved most disbursements after the actual disbursement was made. The Board does not have a written policy regarding payment prior to approval for certain types of ongoing expenditures. Dual signatures required on checks were not always present on all library fund disbursements.

Recommendation – The procedures described in the above comment weaken the control that the Board has over disbursements since not all of the supporting documentation was available for the Board to examine and support their authorization for payment. Dual signatures should be obtained on all checks for the library account.

Response – We will review and implement these recommendations.

Conclusion – Response accepted.

- I-C-06 Library Accountability – Not all Library receipts and disbursements are accounted for by the City. The Library has its own Board of Directors and controls its bank accounts and financial statements.

Recommendation – The Library should make sure its financial information is made available to the City Clerk so it can be included in City reports.

Response – We will review and implement these recommendations.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of Readlyn
Schedule of Findings
Year ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

- II-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amount budgeted in the culture and recreation function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

- II-B-06 Questionable Disbursements – I noted no disbursements that would not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-06 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-D-06 Business Transactions – There were no business transactions between the City and City officials or employees.

- II-E-06 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-06 Council Minutes – No transactions were found that I believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should comply with Chapter 372 of the Code of Iowa and should publish minutes as required.

Response – We will comply with the Code requirements and will publish minutes and receipts as required..

Conclusion – Response accepted.

- II-G-06 Financial Condition – The Enterprise Funds – Water and Sewer had deficit balances of \$2,840 and \$6,805, respectively, at June 30, 2006. The Special Revenue Fund – Urban Renewal Tax Increment Financing (TIF) also had a deficit balance of \$9,680 at June 30, 2006.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to sound financial positions.

Response – We are working on this.

Conclusion – Response accepted.